Embedding of a new business as a cumulative process of combining different but complementary types of projects: The case of a project-based firm

João Mota, Luís M. de Castro*
ISEG Lisbon School of Economics & Management, Universidade de Lisboa, ADVANCE/CSG, Portugal

ARTICLE INFO

Keywords:
New business
Position
Industrial networks
Inter-organizational projects

ABSTRACT

Within the industrial network approach, new business formation is a cumulative process of relating the new business to the existing business network over time. This paper combines the literatures on industrial networks and projects (management) to explore the roles of two different types of (temporary) inter-organizational projects in the embedding process. The paper examines the embedding in a network of a new project-based firm that went from being a new entity to becoming capable of taking a stronger network position by using different types of projects as embedding tools. Embedding of the new firm in the business network required the combining of different but complementary types of projects to build a stronger network position. We find that (temporary) inter-organizational projects are tools for embedding the firm in a network of relationships. The inter-organizational projects can provide the firm with opportunities to both discover and develop not only its own resources but also the resources of others, leading it to change perceptions and principles on what resources are useful to access and who possesses those resources.

1. Introduction

The formation of new businesses is an area that has gained increased attention in the context of the industrial networks approach (Aaboen, Dubois, & Lind, 2011; Aaboen, La Rocca, Lind, Perna, & Shih, 2016; Ciabuschi & Perna, 2008; Hormiga, Batista-Canino, & Sánchez-Medina, 2011; Snehota, 2011). From that perspective, no firm possesses all of the resources (e.g., technological, material, knowledge and other intangibles) required to fulfill the requirements of other firms. Therefore, the firm needs to establish and develop business relationships to access the resources that the other firms directly control (Ford, Gadde, Håkansson, & Snehota, 2003). The starting point for these studies is the concept of a business network as a set of two or more connected business relationships, such that one relationship can affect the content and the development of other (directly or indirectly) connected relationships (Ford et al., 2003; Håkansson & Snehota, 1995).

The presence of business relationships implies that organizing effects on the business network exist, because the “formation of the new business builds on the pre-existing network of relationships but, at the same time, modifies the existing form of the network” (Snehota, 2011, p. 5). By emphasizing the recombination processes of resources and activities involving the new firm and its (specific network) context over time, the study of new ventures is, from an industrial networks approach, inseparable from its inter-organizational dimension (Ciabuschi, Perna, & Snehota, 2012; Gadde, Hjelmgren, & Skarp, 2012; Snehota, 2011).

The emergence of a new business is thus a process that depends upon the establishment and development of business relationships with other actors (Aaboen et al., 2011; Ciabuschi & Perna, 2008; Guercini & Milanesi, 2016; Snehota, 2011). Because the establishment of any relationship often requires counterpart-specific investments and can affect other existing relationships, the process of embeddedness involves a rearrangement of the connections between other actors, resources and activities. Thus, the new business’s formation is a collective process and its embedding in the network translates into a greater or lesser reconfiguration of the network over time. Therefore, the formation or emergence of a new business should be considered in the context of the development of business relationships and the role of those relationships in the development of a new firm (Snehota, 2011).

From the perspective of a focal firm, the embedding process in a network can be understood as the establishing of an initial network position (Johanson & Mattsson, 1992; La Rocca, Snehota, & Harrison, 2017). However, establishing and developing exchange relationships and roles vis-à-vis the firm’s counterparts is neither simple nor straightforward (e.g., Aaboen et al., 2011; La Rocca & Perna, 2014). Actors have bounded knowledge about the network (Anderson, Håkansson, & Johanson, 1994). Further development of the firm’s position can depend upon its exposure to a diversity of business

*Corresponding author.
E-mail addresses: joomota@iseg.ulisboa.pt (J. Mota), mcastro@iseg.ulisboa.pt (L.M. de Castro).

https://doi.org/10.1016/j.indmarman.2017.12.003
Received 4 December 2015; Received in revised form 3 December 2017; Accepted 4 December 2017
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relationships because such exposure can enable learning about others' resources (Gadde, Huemer, & Håkansson, 2003; Håkansson & Johanson, 2001). In short, over time, the new firm might have to find (learn) new means of developing its network position and attractiveness as an exchange partner to gain access to perceived-as-vital firm-external resources and capabilities to ‘get up and running’ (Aabo et al., Dubois, & Lind, 2013).

Considering these contributions, this paper examines, from the perspective of a focal firm (a project-based firm), the relevance and complementarity of two different types of inter-organizational projects for the embeddedness process. The relational contexts relevant for accessing, generating, disseminating and integrating resources and capabilities can be very diverse (Amin & Cohendet, 2004), and (inter) organizational projects may constitute one of those contexts (Brady & Davies, 2004; Lundin & Midler, 1998). Project-based organizations can be a fast and flexible mode of combining knowledge resources (Sydow, Lindkvist, & DeFillipi, 2004) and, according to Brady and Davies (2004, p. 1605), “[l]earning through projects is one of the main ways organizations interact with, and are changed by, their environment”. Projects, as temporary entrepreneurial initiatives, can result in the development of new knowledge, but its retention and re-use often requires the existence of more permanent structures (e.g., Kuura, Blackburn, & Lundin, 2014; Midler & Silberzahn, 2008).

Projects are long-established organizational forms in a number of sectors (Bakker, 2010). One-off ventures are the norm in sectors such as construction, film production or shipbuilding (see Faulkner & Anderson, 1987; Kavanagh, 1998). Projects are also common in professional service firms such as advertising, law, architecture, management consultancies, design agencies, and software engineering (see Grabher, 2004; Lundin et al., 2015). More recently, project-based organizing has invaded traditional, mass-production industries hitherto characterized by routine, repetitive processes. The term projectification has often been used to denote the spread of project and project management techniques to a wide range of sectors, and some authors suggest that we are facing the emergence of a “project society” (Lundin et al., 2015). Projectification refers to instances in which “...there is evidence of a more general reliance on projects, and that this extends beyond the boundaries of working life to a broader ‘projectification of society’” (Maylor, Brady, Cooke-Davies, & Hodgson, 2006).

The practice of project-based organizing is often encapsulated in projects’ temporary character, and project management is often cast as the construction of an entity sealed from its environment (Lundin et al., 2015). However, the practice of temporary collaborations, as evidenced by multi-actor projects, relies on a pre-existing and intricate project ecology (Engwall, 2003). For this paper, the project ecology consists of an established industrial network. Inter-organizational projects, we suggest, can be a vehicle for embedding the new firm in a network of relationships and the means through which the firm progressively discovers and develops its resources and capabilities.

The link between (temporary) projects and (permanent) networks is an issue that has not been addressed with respect to the role of projects in the construction of an entity sealed from its environment (Lundin et al., 2015). Relationships and the means through which the firm grows through two different types of projects, customer-specific and venture/exploratory, in a network context. In the first instance, the firm is remunerated for its services which must fit with a project-based schedule defined by the customer. In the second case, the project has other characteristics; participants contribute time and resources for a common purpose without expecting immediate returns in terms of, for example, payment or new business.

We approach the embedding of the firm in a network by considering two main processes. First, given the cumulative nature of establishing a position in the network (Johanson & Mattsson, 1992; La Rocca et al., 2017), projects with first customers are likely to be crucial for the future development direction of a start-up firm. Such projects can include discovery and development of not only its own resources, but also the resources of others, leading it to change perceptions or principles concerning with whom to attempt the development of business relationships or concerning how to access and combine resources across firms’ boundaries (Aabo et al., 2011; La Rocca & Snehot, 2014).

Second, and related to the previous aspect, it can be assumed that, in addition to customer-specific projects, venture projects (Frederiksen & Davies, 2008) or exploratory projects (Lundin et al., 2015; Midler & Silberzahn, 2008) might expose the newly started firm to new possibilities to strength its position over time. These projects, with fewer constraints than customer-specific projects have (Frederiksen & Davies, 2008), can allow the activation and development of existing business relationships and the establishment of new relationships constituting the more permanent network.

In short, we will approach the network positioning of a newly started project-based firm over time by considering customer-specific projects and, by expanding the ‘relational level’ (Aabo et al., 2011), venture or exploratory projects. The analysis is based on a case study of a small project-based industrial design firm that went from being a new unembedded entity to being capable of assuming a stronger position in the network. We address two issues: 1) how and to what extent the relationship with the first customer, involving successive projects, can influence the embeddedness process, and 2) how the position of the firm in this more permanent network, with its constraints and possibilities, becomes intertwined with more ‘temporary’ networks involving two different types of projects.

Five sections follow this introduction. The next section discusses the cumulative process of embedding a new business over time by considering the relevance of first relationships to the development of its position and considering how exploratory projects can become a mechanism for supporting the embedding of the original business in the more permanent network. Sections 3 and 4 contain, respectively, the method description and the presentation of a case study of a newly-created firm entering a network. Following the analysis of the case in Section 5, Section 6 presents the major conclusions and implications for management.

2. Theoretical background

Within the industrial networks approach, new business formation is a process of connecting the new business to the existing business network over time while simultaneously changing the network (Clabu et al., 2012). In this context, the embedding of a new business can be viewed as a process of ‘breaking into’ a pre-existing network (Snehota, 2011) by establishing a first relationship with other actors in the network. Relationships, both initial and subsequent, allow the combination of resources, the linking of activities, and the development of both formal and informal bonds between actors (Clabu et al., 2012; Horvita et al., 2011; Snehota, 2011). Thus, instead of adjusting to a given (relational) context, embeddedness in the more permanent network is, in an important sense, a cumulative process of relating the new business to other firms in the network through direct and indirect connections (Håkansson & Snehota, 1989; Holm Lund, 2012; La Rocca & Perna, 2014).

Actors’ knowledge about the network is limited and incomplete (Håkansson & Johanson, 1992), and the developing of business relationships is likely to generate a continuous flow of new knowledge (Håkansson & Johanson, 2001). Therefore, the process of relating is also a process of learning about (and in) the network. By interacting, actors are likely to find hidden or previously unknown qualities of physical and organizational resources during the process (Gadde et al., 2012). The firms involved can learn to explore new approaches to combining resources that might constitute collective opportunities (Mainela, 2012) for the creation and development of other resources (Clabu et al., 2012; Snehota, 2011). From a new firm’s perspective,
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